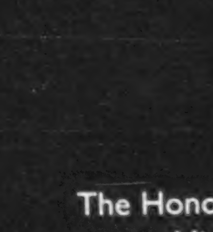
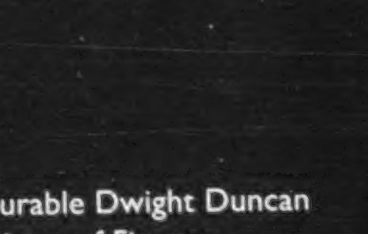
Ontario

ONTARIO'S TAX PLAN FOR JOBS AND GROWTH:

Cutting Personal and Corporate Taxes and Harmonizing Sales Taxes

The Honourable Dwight Duncan
Minister of Finance





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For general inquiries regarding *Ontario's Tax Plan for Jobs and Growth: Cutting Personal and Corporate Taxes and Harmonizing Sales Taxes* please call:

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FOREWORD

Over the past six years, the McGuinty government has implemented a wide range of measures to improve Ontario's competitiveness in attracting business investment and creating jobs. These measures include significant investments in health care, education, infrastructure and innovation, along with strategic tax cuts, such as the legislated elimination of the Capital Tax.

During this global recession, intense competition for investment and jobs poses an increasing challenge to Ontario's traditional sources of prosperity. Ontario must find innovative ways to attract the business investment needed to ensure sustained economic growth. This growth will further enhance the province's standard of living and the public services Ontario families rely on.

Ontario's population is growing and getting older. These factors will increase the pressure on Ontario's health care system, which already consumes more than 40 per cent of the Province's annual budget.

That is why the McGuinty government set out a plan in the 2009 Budget to create jobs and economic growth and to sustain key priorities such as health care and education.

The plan contains a fair and balanced package of tax cuts for both people and businesses. It would increase business investment, create new jobs, raise incomes and allow for price reductions on many consumer purchases. For families, the proposed personal income tax cuts would benefit 93 per cent of taxpayers. For businesses, the Corporate Income Tax cuts would enhance the benefits of the proposed Harmonized Sales Tax (HST) by attracting additional business investment to Ontario and creating even more jobs.

The government is introducing legislation — the Ontario Tax Plan for More Jobs and Growth Act, 2009 — that would follow through on the 2009 Budget proposals to implement the HST and cut personal and corporate income taxes.

While short-term stimulus measures are important during this global recession, this legislative package is part of the overall commitment by the McGuinty government to encourage job creation and economic growth.

"The 2009 Ontario Budget measures, together with other recent tax changes, will have a profound impact on Ontario's competitiveness by lowering the tax burden on new business investment.

Within ten years, Ontario will benefit from:

- increased capital investment of $47 billion;
- increased annual incomes of up to 8.8%, or $29.4 billion; and
- an estimated 591,000 net new jobs."

Jack M. Mintz, Palmer Chair of Public Policy, School of Public Policy, University of Calgary, November 2009

Now is precisely the right time to modernize the tax system so that when the effects of this global recession end — and they will — Ontario's economy will be even more competitive and better able to create jobs.

Working together, Ontarians will confront the challenges and emerge with more jobs and a stronger and more prosperous economy.

Ontario

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November 16, 2009

Deborah Deller
Clerk of the Legislative Assembly
Legislative Building, Room 104
Queen's Park
Toronto, Ontario
M7A 1A2

Dear Ms. Deller:

The proposed Ontario Tax Plan for More Jobs and Growth Act, 2009 would implement a series of tax cuts for people, families and businesses as well as measures relating to the Harmonized Sales Tax (HST). The tax measures proposed in the bill as a whole would deliver significant permanent tax cuts and temporary tax relief for people and businesses that would create jobs and economic growth.

Ontario individuals and families would receive $10.6 billion in tax relief over three years. This would be achieved through a personal income tax (PIT) cut, almost doubling property tax and sales tax credits and providing direct payments to ensure a smooth transition to the HST.

Effective January 1, 2010, the tax rate on the first tax bracket would be cut from 6.05 per cent to 5.05 per cent, providing more than $1.1 billion to Ontarians in PIT cuts. Ontarians would have the lowest provincial tax rate on the first $37,106 of taxable income. As a result, 93 per cent of taxpayers would see a PIT cut and approximately 90,000 lower-income tax filers would no longer pay PIT.

Significant Corporate Income Tax (CIT) cuts are also proposed for small and large businesses across the province to foster jobs and growth. The proposed CIT cuts would deliver $4.5 billion in business tax relief over three years. This is in addition to the permanent tax cut for business provided by the elimination of the Capital Tax.

A recent study estimated that the proposed tax package, combined with other recent tax measures would, within 10 years, lead to $47 billion in new investment and 591,000 net new jobs and would raise annual incomes by up to 8.8 per cent.

...cont'd

- 2 -

The proposed Ontario Tax Plan for More Jobs and Growth Act, 2009, which includes some new or modified tax measures, would result in significant tax cuts for people and business. In addition to the PIT and CIT rate cuts and the enhancements to tax credits contained in the proposed act are the replacement of manufacturers' fees on beer and wine with taxes on the sale of beer and wine, a change to the retail sales tax on used vehicles to ensure a level playing field, and a legislative mechanism to allow for a dedicated, regionally based levy on transient accommodation to promote destination marketing.

Pursuant to subsection 5 (2) of the *Taxpayer Protection Act, 1999*, this statement will confirm that, in my opinion, the specified circumstance in paragraph 1 of subsection 5 (1) exists. The total tax relief package, including the proposed measures announced today, would reduce Ontario revenue by $3.4 billion over the first four years, net of federal assistance of $4.3 billion.

Sincerely,

" DWIGHT DUNCAN "

The Honourable Dwight Duncan
Minister of Finance

MODERNIZING ONTARIO'S TAX SYSTEM FOR JOBS AND GROWTH

INTRODUCTION

The 2009 Ontario Budget proposed a comprehensive tax package that would modernize Ontario's tax system in order to improve the province's competitiveness and create jobs.

The proposed comprehensive tax package would:

- replace the Retail Sales Tax (RST) with a more modern, value-added tax that would be combined with the federal Goods and Services Tax (GST) to create a Harmonized Sales Tax (HST);
- cut personal income tax (PIT) for 93 per cent of taxpayers;
- enhance property tax credits and sales tax credits for low- to middle-income individuals and families;
- provide temporary support to people and businesses to assist in the transition to the HST;
- reduce Corporate Income Tax (CIT) rates for large and small businesses; and
- eliminate the small business deduction surtax.

The proposed Ontario Tax Plan for More Jobs and Growth Act, 2009, would result in significant tax cuts for people and business and, as a result, fully complies with Ontario's *Taxpayer Protection Act, 1999*.

TOTAL TAX RELIEF PACKAGE FOR JOBS AND GROWTH

The comprehensive tax package proposed in the 2009 Budget delivers significant permanent and temporary tax relief of $10.6 billion to people and $4.5 billion to business over three years. The Budget also proposed a number of targeted tax relief measures that would support key sectors in the economy, innovation and skills training.

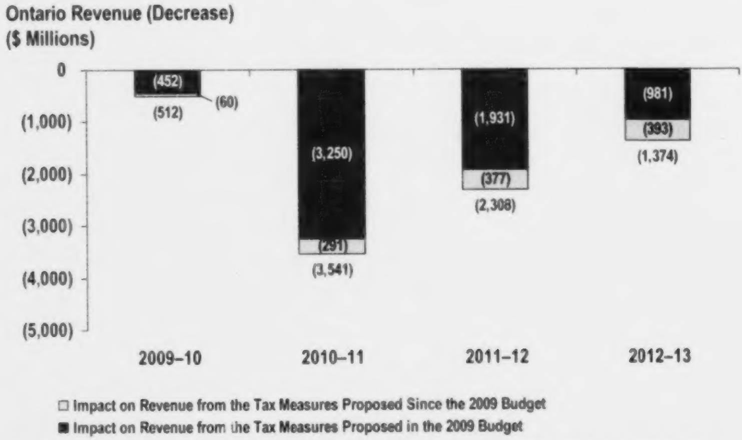
Enhanced tax support for the film and television sector announced in June 2009 and the proposed HST measures described in this paper would provide further tax relief to support jobs and growth.

Chart 1 presents the net reduction in Ontario revenue over the first four years from the total tax relief package for people and business.

To support the transition to the HST, the federal government agreed to provide Ontario with transfer payments totalling $4.3 billion. After deducting the federal payments, the net reduction in Ontario revenue from the total tax relief package would be $3.4 billion over the first four years.

The total tax relief package, including the proposed measures presented in this paper, would reduce Ontario revenue by $3.4 billion over the first four years, net of federal assistance of $4.3 billion.

Total Tax Cuts for People and Business* **Chart 1**



Note: * The reductions in revenue include temporary transitional support for people and businesses primarily funded from federal government payments totalling $4.3 billion over two years. Transitional support would be reported as a program expense. The revenue impacts of the 2009 Budget proposals are the amounts reported on page 134 of the 2009 Budget papers.

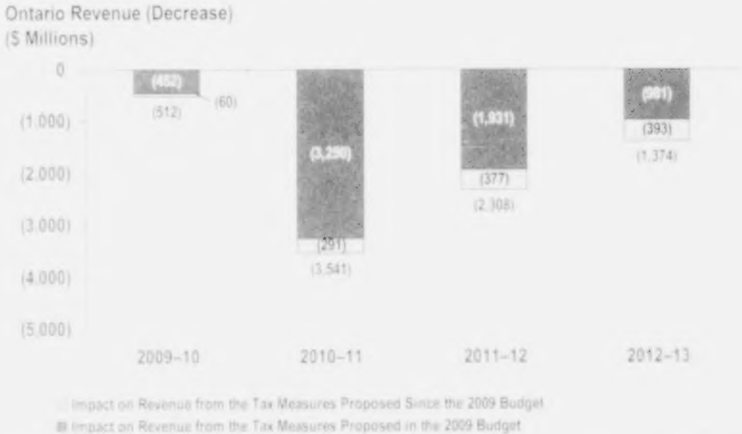
PROMOTING JOBS AND GROWTH THROUGH SALES TAX HARMONIZATION

Effective July 1, 2010, the RST would be replaced with a value-added tax (VAT) and combined with the federal GST to create a federally administered HST. The provincial portion of the HST would be eight per cent — the same as the general RST rate — and the federal portion would be five per cent, for a combined HST rate of 13 per cent.

The HST would make Ontario businesses more competitive, increase business investment, create new jobs, raise incomes and allow for price reductions on many consumer expenditures.

Total Tax Cuts for People and Business*

Chart 1



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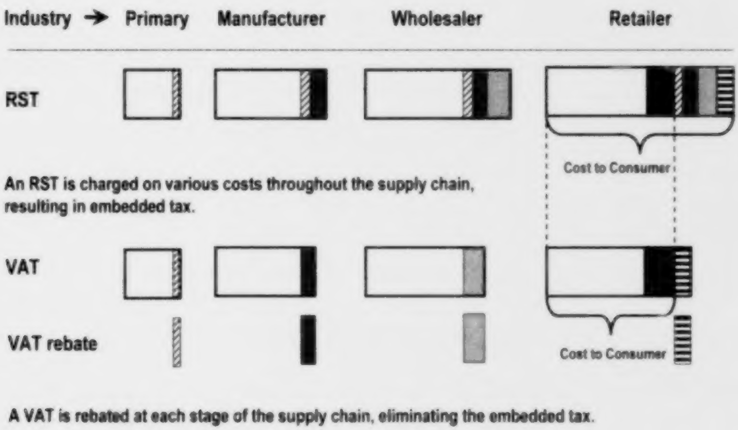
The HST would make Ontario businesses more competitive, increase business investment, create new jobs, raise incomes and allow for price reductions on many consumer expenditures.

The RST is charged on many purchases made by businesses in manufacturing goods and providing services. As illustrated in Chart 2, this tax becomes embedded in the cost of goods at each stage of the production, distribution and retail processes. The result is a compounding of tax upon tax that is ultimately paid by consumers through higher prices for goods and services. The proposed HST would remove this hidden tax by refunding sales taxes paid on most business inputs. These refunds would mean lower business costs and prices for many consumer purchases.

VAT Lowers Costs

Chart 2



Note: Illustrative example only. Not to scale.

Making Ontario Businesses More Competitive

By taxing business purchases, including many capital items, the RST places Ontario at a competitive disadvantage compared to many jurisdictions when it comes to attracting investment and creating jobs. Ontario businesses have more difficulty competing in the export market, which is especially damaging since Ontario's economy is reliant on exports. It also makes it more difficult for Ontario businesses to compete against imports.

Replacing the RST with the HST would reduce the cost of capital purchases and operating costs, making Ontario more attractive for new business investment, and would allow existing Ontario businesses to improve their competitiveness by lowering their prices. Increased business investment means more jobs and higher incomes.

A study that examined the impact of sales tax harmonization in the Atlantic provinces found that cost savings to business were rapidly passed through to consumers.[1] A recent TD Bank report predicts that, in Ontario, competitive pressures would lead businesses to pass through 80 per cent of their savings to consumers in the first year and 95 per cent by the third year (see Chart 3).[2]

The studies by the TD Bank and Professors Michael Smart and Richard Bird of the University of Toronto indicate that ultimately cost savings are fully passed through to consumers.

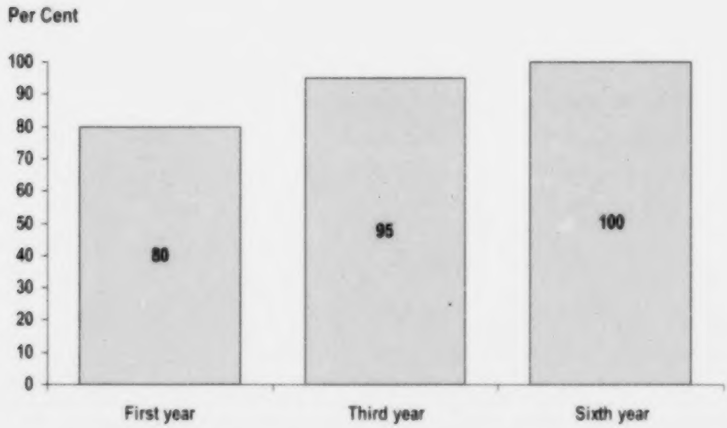
[1] Michael Smart and Richard M. Bird, "The Economic Incidence of Replacing a Retail Sales Tax with a Value-Added Tax: Evidence from Canadian Experience," *Canadian Public Policy*, Volume XXXV, No. 1, 2009.

[2] "The Impact of Sales Tax Harmonization in Ontario and B.C. on Canadian Inflation," *TD Economics Special Report*, September 18, 2009.

The TD Bank report notes that "[i]n order for businesses to generate an increase in demand for their products they will have to pass those savings onto consumers."[3]

For example, after the implementation of the proposed tax measures and the removal of embedded RST, a manufacturer with annual revenue of $5 million could see its Ontario CIT and sales tax burden reduced by nearly 90 per cent.[4] This saving presents an opportunity for the manufacturer to cut the price charged to its customers. Other tax reductions, such as the legislated elimination of the Capital Tax, and the reduction in compliance costs from a single HST administration would provide a further opportunity for businesses to cut prices.

Business Cost Savings Passed Through to Consumers **Chart 3**



Source: "The Impact of Sales Tax Harmonization in Ontario and B.C. on Canadian Inflation," *TD Economics Special Report*, September 18, 2009.

[3] Ibid.

[4] See the section titled Creating Jobs and Growth: Tax Cuts for Business for a more detailed presentation of this example and for other illustrative examples of the potential savings to businesses.

Countries Around the World Have Adopted a Value-Added Tax

More than 140 countries and four other provinces[5] have adopted a VAT. Following Ontario's 2009 Budget proposal to harmonize with the GST, British Columbia announced in July 2009 that it would also harmonize with the GST in order to generate economic growth and create jobs.

"This is the single biggest thing we can do to improve BC's economy. This is an essential step to make our businesses more competitive, encourage billions of dollars in new investment, lower costs on productivity and reduce administrative costs to BC taxpayers and businesses. Most importantly, this will create jobs and generate long-term economic growth that will in turn generate more revenue to sustain and improve crucial public services."

The Honourable Gordon Campbell, Premier, British Columbia, July 23, 2009

"We had to move fast if we were not to be left at a competitive disadvantage to Ontario."

The Honourable Colin Hansen, Minister of Finance, British Columbia, August 20, 2009

All the advanced countries in the Organisation for Economic Co-operation and Development (OECD), with the exception of the United States, have adopted a VAT. In adopting the GST in 1991, Canada was a relative latecomer to the move to value-added taxes. Among the OECD countries, only Finland, Switzerland and Australia adopted a VAT after Canada did.

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5 These provinces are Quebec, Newfoundland and Labrador, Nova Scotia and New Brunswick.

Since 1990, the OECD has consistently recommended that provinces in Canada harmonize their sales tax with the GST to increase economic efficiency and promote economic growth. For example, in 2004, the OECD commented that "[a] single rate, harmonised broad-based value-added sales tax system would be simpler, fairer, and more economically efficient. Importantly, a broad-base value-added tax would reduce capital and operating costs of business compared with retail sales taxes that currently apply in some of the provinces. This would promote investment, productivity and the competitiveness of Canadian-based firms both domestically and in foreign markets."[6]

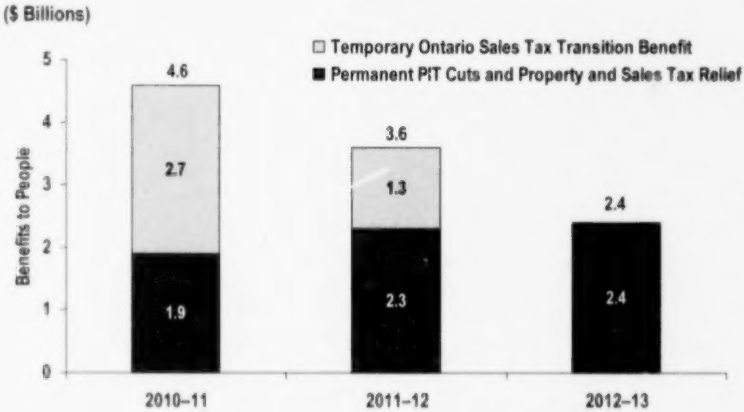
The increases in investment, jobs and incomes from moving to the HST would be further enhanced by the proposed CIT rate cuts and the legislated elimination of the Capital Tax.

[6] OECD, Economic Survey of Canada, 2004, p. 114.

CREATING JOBS AND GROWTH: TAX CUTS FOR PEOPLE

The 2009 Budget proposed $10.6 billion in tax relief to people over three years by cutting PIT, enhancing ongoing sales tax and property tax relief, and providing direct payments to ensure a smooth transition to the HST.

$10.6 Billion in Tax Relief for People Over Three Years **Chart 4**



Source: 2009 Ontario Budget.

Personal Income Tax Cuts

Effective January 1, 2010, the tax rate on the first tax bracket would be cut by one percentage point, from 6.05 per cent to 5.05 per cent, providing more than $1.1 billion to Ontarians in broadly based PIT cuts in 2010–11. Ontarians would have the lowest provincial tax rate on the first $37,106 of taxable income (for 2010). As a result, 93 per cent of taxpayers would see a PIT cut, and approximately 90,000 lower-income tax filers would no longer pay Ontario PIT at all.

CREATING JOBS AND GROWTH: TAX CUTS FOR PEOPLE

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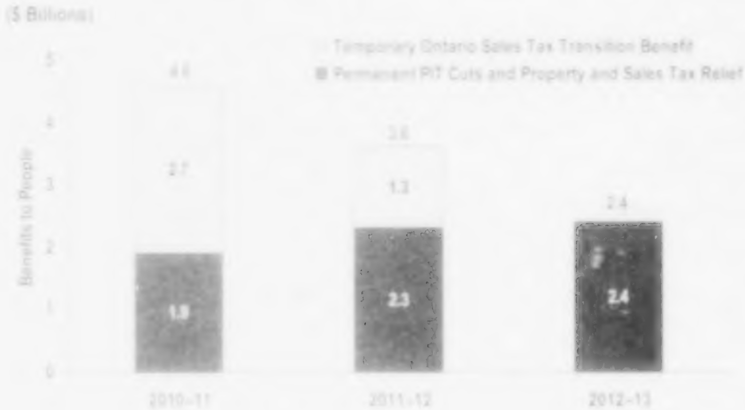
Chart 4



Source: 2009 Ontario Budget.

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Sales Tax and Property Tax Relief

Two new tax credits — the Ontario Sales Tax Credit and the Ontario Property Tax Credit — would replace the existing combined property and sales tax credits starting with the 2010 tax year. The new credits would be refundable and are designed to provide sales and property tax relief to low- to middle-income tax filers. In 2011–12, more than $1.1 billion in additional sales and property tax relief would be provided to Ontarians through the new credits, compared to those currently in place.

Ontario Sales Tax Credit

The new sales tax credit would provide timely assistance through quarterly payments starting in August 2010, one month after the federal GST credit to provide a smoother cash flow to help lower-income families. Ontario residents who are aged 19 or over or who have a spouse or common-law partner or live with their child would be eligible to claim the credit. It would provide annual relief of up to $260 for each adult and each child, benefiting about 2.9 million families and individuals. The credit would provide about $1 billion in total sales tax relief in 2011–12.

Helping Low- to Middle-Income Ontarians Through Enhanced Tax Credits — **Table 1**

	Maximum Amount[1]	Phase-out Rate	Phase-out Range — Adjusted Family Net Income[1]	
Ontario Sales Tax Credit (OSTC)	$260 per adult and child in a family	4%	Single	$20,000 to $26,500[2]
			Family of 2	$25,000 to $38,000[2]
			Family of 3	$25,000 to $44,500[2]
			Family of 4	$25,000 to $51,000[2]
			Family of 5	$25,000 to $57,500[2]
Ontario Property Tax Credit (OPTC)	Non-seniors $900	2%	Non-senior Single	$20,000 to $65,000[3]
			Non-senior Family	$25,000 to $70,000[3]
	Seniors $1,025		Senior Single	$20,000 to $71,250[3]
			Senior Family	$25,000 to $76,250[3]

Notes:

1 The amounts and income thresholds for the OSTC and OPTC would be indexed annually for inflation.

2 Maximum income for the OSTC varies with the number of people in the family; it rises to $64,000 for a family of six, and by $6,500 for each additional family member.

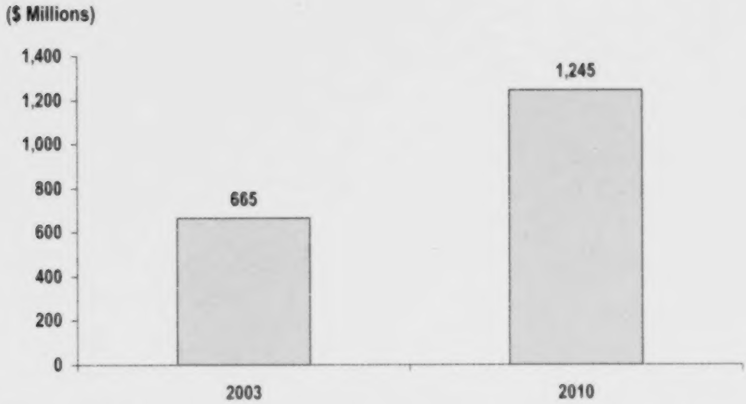
3 The maximum income for the OPTC depends on the property tax or rent paid. These upper limits represent the maximum possible income at which someone could stop receiving the OPTC.

Ontario Property Tax Credit

The new property tax credit would maintain existing benefit amounts while extending property tax relief to more low- to middle-income Ontario homeowners and tenants, providing an additional $270 million in property tax relief on an annual basis to about 2.3 million individuals and families. Individuals who are aged 18 or over or who have a spouse or common-law partner or live with their child would be eligible to claim the credit. The credit would provide about $1 billion in total property tax credits in 2010–11. Together with the new Ontario Senior Homeowners' Property Tax Grant, the government's proposals would almost double property tax relief since 2003.

Ontario Property Tax Relief, 2003 vs. 2010

Chart 5



Notes: The estimate for 2003 represents the property tax component of the Ontario Property and Sales Tax Credits. The estimate for 2010 represents the proposed new Ontario Property Tax Credit and the 2010 Senior Homeowners' Property Tax Grant.
Source: Ontario Ministry of Finance.

Sales Tax Transition Benefit

To help smooth the transition to the HST, eligible Ontario residents 18 years of age or over or who have a spouse or common-law partner or live with their child would receive transition benefit payments in June 2010, December 2010 and June 2011. Eligible families (including single parents) with adjusted family net incomes of $160,000 or less would get three payments totalling $1,000. Eligible single individuals with net incomes of $80,000 or less would get three payments totalling $300. These payments would not be taxable or affect eligibility for social assistance or income-tested benefits delivered through the tax system. This measure would provide an estimated $4 billion in relief to 6.5 million eligible individuals and families.

CREATING JOBS AND GROWTH: TAX CUTS FOR BUSINESS

The comprehensive tax package proposed in the 2009 Budget would permanently reduce taxes for large and small businesses across the province. The CIT rates would be cut, beginning July 1, 2010, as follows:

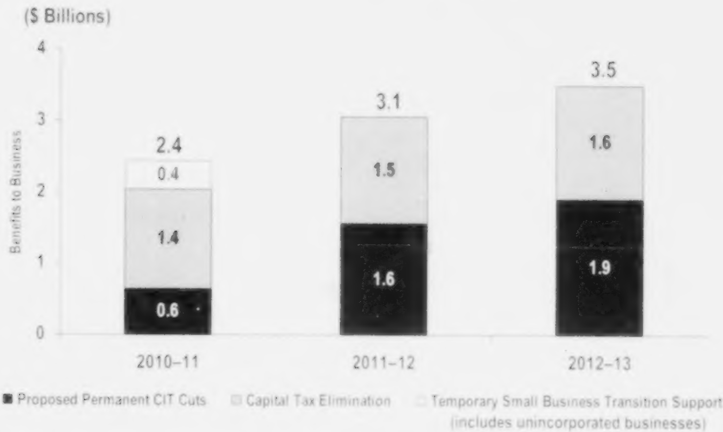
- the general CIT rate would be cut from 14 per cent to 12 per cent and further reduced to 10 per cent over three years;
- the CIT rate on manufacturing and processing, mining, logging, farming and fishing would be cut from 12 per cent to 10 per cent;
- the small business CIT rate would be cut from 5.5 per cent to 4.5 per cent; and
- the small business deduction surtax of 4.25 per cent would be eliminated.

To ensure that businesses subject to the Corporate Minimum Tax (CMT) fully benefit from the proposed CIT rate reductions, the 2009 Budget proposed a corresponding reduction in the CMT rate from four per cent to 2.7 per cent. The 2009 Budget also proposed to exempt more small and medium-sized businesses from calculating and paying the CMT; a corporation or associated group with under $50 million in assets or under $100 million in annual gross revenues would not pay CMT. These proposed changes would take effect for taxation years ending after June 30, 2010. The proposed CMT rate reduction would be pro-rated for taxation years straddling the effective date.

As announced in the 2009 Budget, the proposed permanent CIT cuts, together with the small business transition support, would deliver $4.5 billion in tax relief to business over three years. This is in addition to the permanent tax cut for business provided by the legislated elimination of the Capital Tax (see Chart 6).

Corporate Tax Relief for Jobs and Growth

Chart 6

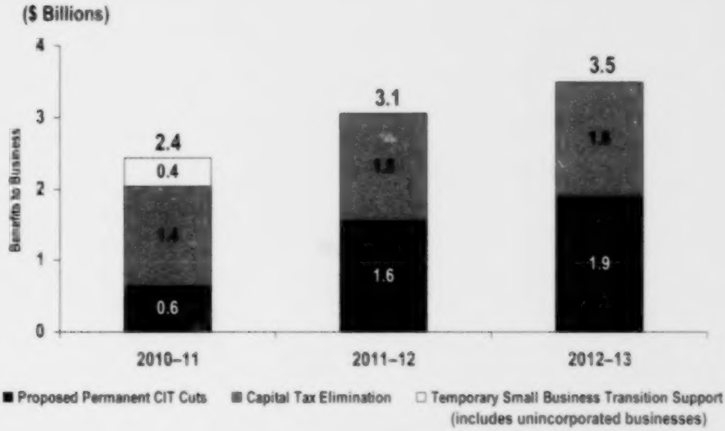


Source: 2009 Budget estimates for proposed permanent CIT cuts and the temporary small business transition support. Capital Tax elimination estimates are savings compared to the Capital Tax structure before the 2004 Ontario Budget measures.

Table 2 shows that almost all sectors of Ontario's economy would see substantial tax savings from the HST combined with the permanent tax cuts. When fully implemented, businesses would save almost $4.5 billion a year from replacing the RST with the HST, $2.4 billion annually from the CIT cuts and nearly $1.6 billion a year from eliminating the Capital Tax.

Corporate Tax Relief for Jobs and Growth

Chart 6



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Total Business Tax Relief by Sector — Annual Savings[1,2] ($ Millions) **Table 2**

Sector	HST	Corporate Income Tax	Capital Tax[3]	Total
Agriculture	30	15	s	45
Forestry, Fishing and Hunting	15	s	s	15
Mining, Utilities, Oil and Gas	105	110	100	315
Construction	2,335	120	40	2,495
Manufacturing	510	405	305	1,220
Wholesale Trade	440	245	100	785
Retail Trade	265	100	55	420
Transportation and Warehousing	500	60	35	595
Information and Cultural Industries	565	80	85	730
Financial Services (except Insurance)	(900)	535	520	155
Insurance	(160)	150	5	(5)
Real Estate	(20)	135	75	190
Renting and Leasing	105	25	40	170
Professional, Scientific and Technical Services	395	270	120	785
Other Services (except Public Administration)	280	170	75	525
Total Business	**4,465**	**2,420**	**1,555**	**8,440**

1 Represents the annual savings following the full phase-in of the tax measures. Savings do not include more than $700 million annually in Business Education Tax reductions, targeted tax incentives proposed in the 2009 Budget and the enhancement to the Ontario Production Services Tax Credit announced on June 29, 2009, over $500 million in annual compliance cost savings from a single HST administration and up to $100 million in annual compliance cost savings from a single corporate tax administration.

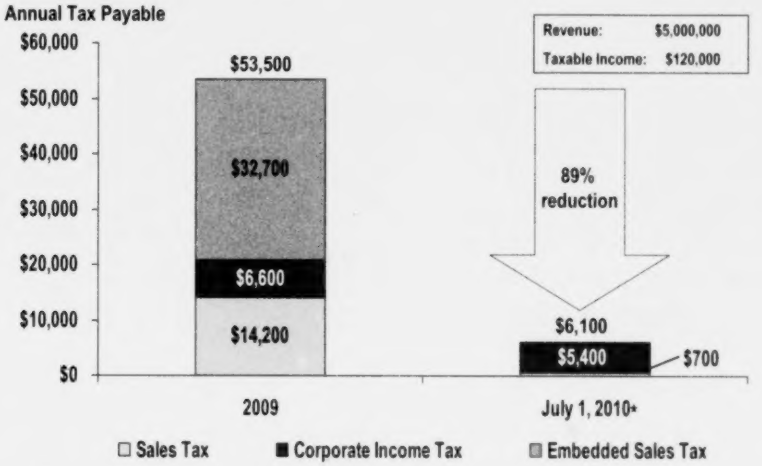
2 Annual savings of less than $5 million are denoted by the letter "s" (small).

3 Capital Tax savings compared to the Capital Tax structure before the 2004 Budget measures.

The following examples illustrate the potential annual savings for several small to large businesses from the proposed tax cuts and the removal of the RST that is embedded in the price of business inputs.[7] Charts 7 to 10 present these savings for a manufacturer, restaurant, retailer and software publisher. Further examples are summarized in Table 3. The examples show that these costs would be reduced by about 60 per cent to over 90 per cent.

Tax Savings for a Manufacturer

Chart 7

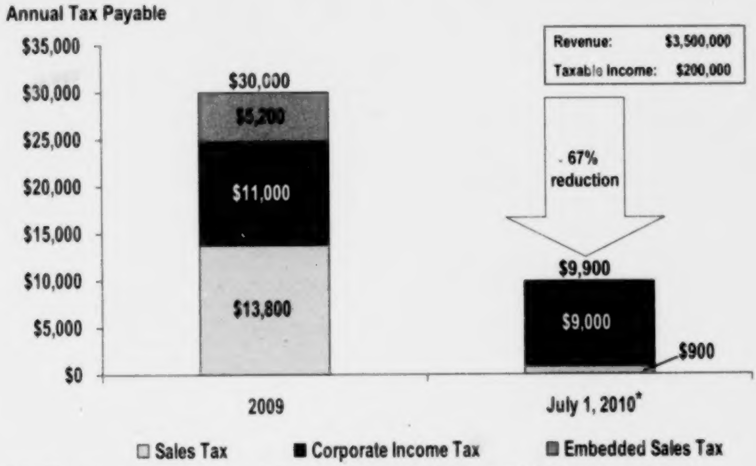


Note: *The savings commence July 1, 2010. Sales tax payable after July 1, 2010 is due to the continued application of sales tax on insurance premiums.
Source: Ontario Ministry of Finance.

[7] While each example does not represent an actual company, the financial profile and corporate tax payable are based on actual corporate tax administration data for corporations in the industry. Sales tax and embedded sales tax estimates are based on effective tax rates paid by each industry, as determined using Statistics Canada survey data.

Tax Savings for a Restaurant

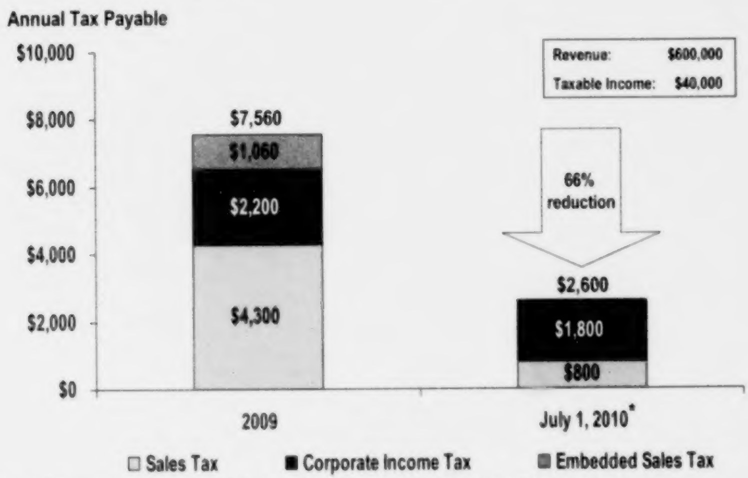
Chart 8



Note: *The savings commence July 1, 2010. Sales tax payable after July 1, 2010 is due to the continued application of sales tax on insurance premiums.
Source: Ontario Ministry of Finance.

Tax Savings for a Retailer

Chart 9



Note: *The savings commence July 1, 2010. Sales tax payable after July 1, 2010 is due to the continued application of sales tax on insurance premiums.
Source: Ontario Ministry of Finance.

The following examples illustrate the potential annual savings for several small to large businesses from the proposed tax cuts and the removal of the RST that is embedded in the price of business inputs. Charts 7 to 10 present these savings for a manufacturer, restaurant, retailer and software publisher. Further examples are summarized in Table 4. The examples show that these costs would be reduced by about 60 per cent to over 90 per cent.

Tax Savings for a Manufacturer

Chart 7

While each example does not represent an actual company, the financial profile and corporate tax payable are based on actual Corporate Tax administration data for corporations in the industry. Sales tax and embedded sales tax estimates are based on effective tax rates paid by each industry as determined using Statistics Canada survey data.

Tax Savings for a Restaurant

Chart 8

Note: *The savings commence July 1, 2010. Sales tax payable after July 1, 2010 is due to the continued application of sales tax on insurance premiums.
Source: Ontario Ministry of Finance

Tax Savings for a Retailer

Chart 9

Note: *The savings commence July 1, 2010. Sales tax payable after July 1, 2010 is due to the continued application of sales tax on insurance premiums.
Source: Ontario Ministry of Finance

Tax Savings for a Software Publisher

Chart 10

Note: *The savings commence July 1, 2010. Sales tax payable after July 1, 2010 is due to the continued application of sales tax on insurance premiums.
Source: Ontario Ministry of Finance.

Annual Tax Savings to Business — Illustrative Examples

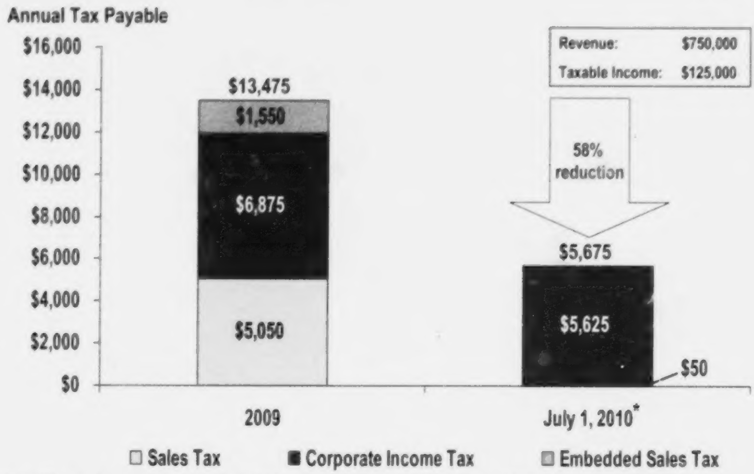
Table 3

		Tax Payable[1]		
Industry/Business	Revenue	2009	Full Implementation[2]	% Reduction in Tax Payable
Coffee Shop	$1,000,000	$9,300	$2,500	73
Dry Cleaner	$200,000	$6,480	$960	85
Forestry	$20,000,000	$243,000	$45,000	81
Hotel	$9,000,000	$245,500	$74,500	70
Landscaping	$3,000,000	$54,600	$8,500	84
Movie Theatre	$1,000,000	$15,900	$6,400	60
Telecommunications	$250,000,000	$5,125,000	$230,000	96

1 Tax payable includes sales tax, CIT, embedded sales tax and Capital Tax (where applicable).
2 Full implementation occurs July 1, 2010 for the coffee shop, dry cleaner, landscaper and movie theatre; July 1, 2013 for the hotel, when the CIT rate cuts are fully phased in; and July 1, 2018 for the telecommunications provider and the forestry company, when input tax credits are fully phased in.

Tax Savings for a Software Publisher

Chart 10



Note: *The savings commence July 1, 2010. Sales tax payable after July 1, 2010 is due to the continued application of sales tax on insurance premiums.
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Making Ontario More Attractive for New Investment and Jobs

The tax reductions for business would cut Ontario's marginal effective tax rates (METRs)[8] on new business investment in half. This reduction in the tax rates on income earned from new investment would make Ontario a highly attractive location for businesses to invest and create jobs.

Ontario's METR for medium-sized and large businesses would fall from 32.8 per cent in 2009 to 16.2 per cent in 2018, when the input tax credits are fully phased in (see Chart 11). The largest proportion of the reduction would occur in 2010, when the METR falls to 18.6 per cent. The reduction in Ontario's METR relative to the U.S. and OECD averages would significantly improve Ontario's tax competitiveness in attracting new jobs and investment.

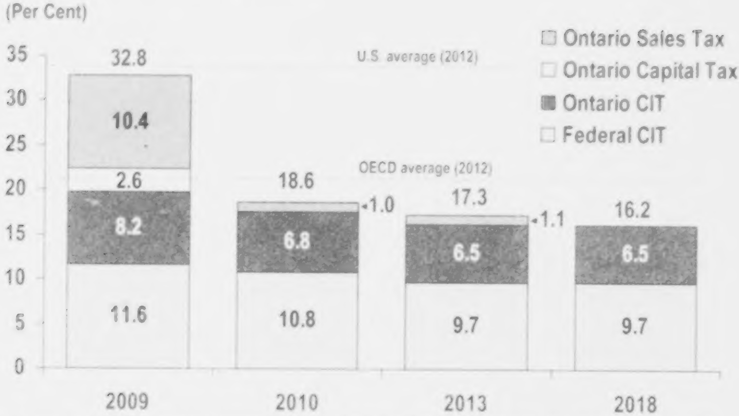
The METR for small businesses would also fall dramatically. A study has estimated that the small business METR would fall from 28.6 per cent in 2009 to 13.3 per cent in 2010.[9] With small businesses accounting for over 90 per cent of all Ontario businesses, this reduction in the METR would support a sector that is key to creating jobs and economic growth.

[8] The METR is a comprehensive measure of the tax that applies to an incremental dollar of income from new capital investment. It reflects the combined effect of federal and provincial corporate income taxes, rules related to depreciation, investment tax credits and capital and sales taxes.

[9] Jack M. Mintz, "Ontario's Bold Move to Create Jobs and Growth," School of Public Policy, University of Calgary, November 2009.

Cutting Ontario's METR on New Business Investment in Half*

Chart 11



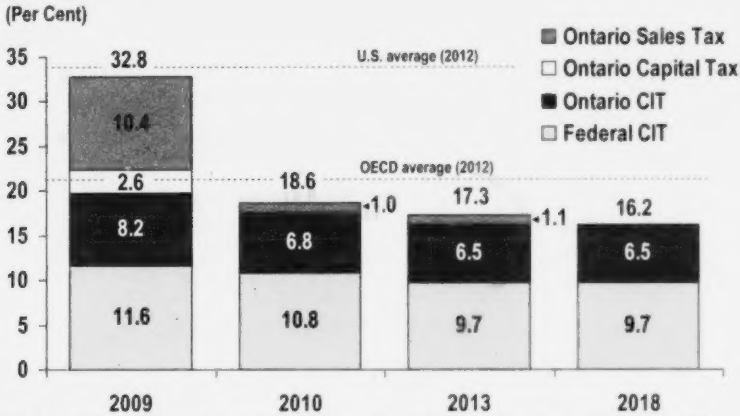
* Includes the Ontario Corporate Income Tax (CIT) rate cuts and harmonized sales tax proposed in the 2009 Budget, the phase-out of Ontario's capital tax by July 1, 2010, and the reduction in the general federal CIT rate to 15 per cent by 2012.

Sources: Ontario Ministry of Finance and Finance Canada.

It is estimated that, within 10 years, the improvement in Ontario's tax competitiveness would lead to $47 billion in new investment and 591,000 net new jobs and would raise annual incomes by up to 8.8 per cent.[10]

[10] Ibid.

Cutting Ontario's METR on New Business Investment in Half* **Chart 11**



* Includes the Ontario Corporate Income Tax (CIT) rate cuts and harmonized sales tax proposed in the 2009 Budget, the phase-out of Ontario's capital tax by July 1, 2010, and the reduction in the general federal CIT rate to 15 per cent by 2012.

Sources: Ontario Ministry of Finance and Finance Canada.

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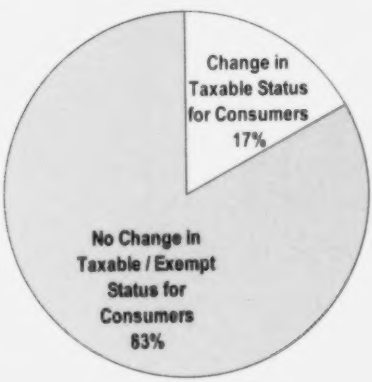
[10] Ibid.

HOW THE TAX CHANGES WOULD AFFECT CONSUMERS

Moving to the HST would cause some purchases to cost more because some goods and services that were not subject to the RST would become subject to the provincial portion of the HST for the first time. However, Ontarians would not see a change in taxable status for 83 per cent of total consumer expenditures (see Chart 12).

To mitigate the effect on consumers, the 2009 Budget proposed $10.6 billion over three years in permanent and temporary tax relief for consumers. The tax package would further support Ontario consumers through a more competitive economy, an estimated 591,000 net new jobs and higher annual incomes of up to 8.8 per cent.[11]

Taxable Status of Goods and Services for Consumers Under HST* **Chart 12**



Note: * Proportion of consumer spending. Tax status is based upon whether the good or service is currently taxed to the consumer. Diagram is for illustrative purposes. Based on 2005 provincial Input-Output tables. Detailed tax treatment is set out in the 2009 Budget, this paper and Single Sales Tax Information Notice 2 — June 18, 2009.
Source: Ontario Ministry of Finance.

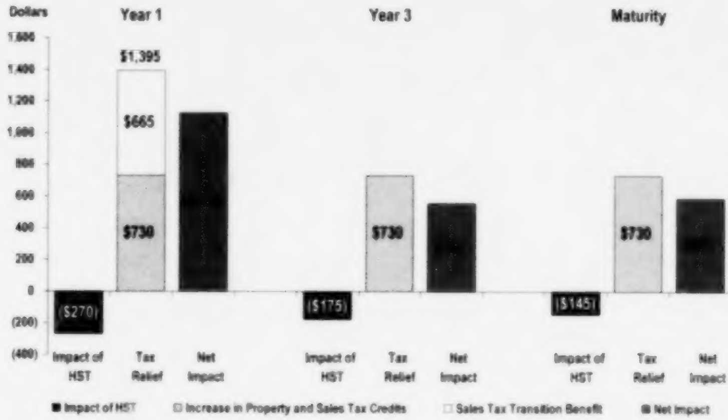
[11] Ibid.

Taxable Status of Goods and Services for Consumers Under HST	Table 4
No Change in Taxable/Exempt Status for Consumers — Examples	
Basic Groceries	Furniture
Prescription Drugs	Toys
Municipal Water	Admissions to Sporting Events
Certain Medical Devices	Movie Tickets
Most Health Care Services	Restaurant Meals
Most Educational Services	Cleaning Products (e.g., Soaps, Detergents)
Municipal Public Transportation	Cell Phone Charges
Luggage, Briefcases, Bags, etc.	Home Phone Services
Child Care Services	Cable TV Service
Books	Auto Insurance
Children's Clothing	Home Insurance
Children's Footwear	Residential Rent
Clothing	Prepared Foods Sold for $4 or Less
Child Car Seats and Car Booster Seats	Newspapers
Vehicles and Parts	Radios, Stereos, CD Equipment and Accessories
Vehicle Repairs (Parts and Labour)	TVs, DVDs and Accessories
Over-the-Counter Medication	Music Lessons
Crafting Supplies (Scissors, Yarn)	Pharmacist Dispensing Fees
Home Maintenance Equipment (Lawnmowers, Snow Blowers, Sprinklers)	Auto Rentals
Mortgage Interest Costs	Adult Incontinence Products
Refrigerators and Freezers	Feminine Hygiene Products
Prepackaged Computer Software	Diapers
Tailoring	
Change in Taxable Status for Consumers — Examples	
Electricity	Personal Services (e.g., Hairstyling)
Professional Services (e.g., Legal, Accounting and Real Estate Fees and Commissions)	Internet Access Fees Tobacco
Heating Fuels	Gasoline

The impact on individual households would vary depending on a number of factors, such as spending patterns, level of savings, and tax credits and deductions claimed. The following examples illustrate the impact of the proposed tax changes on several households. These impacts include the new tax relief measures proposed in the Ontario Tax Plan for More Jobs and Growth Act, 2009, but do not reflect the increased personal incomes that are expected due to stronger economic growth resulting from the full tax plan. Three time periods are presented for each example:

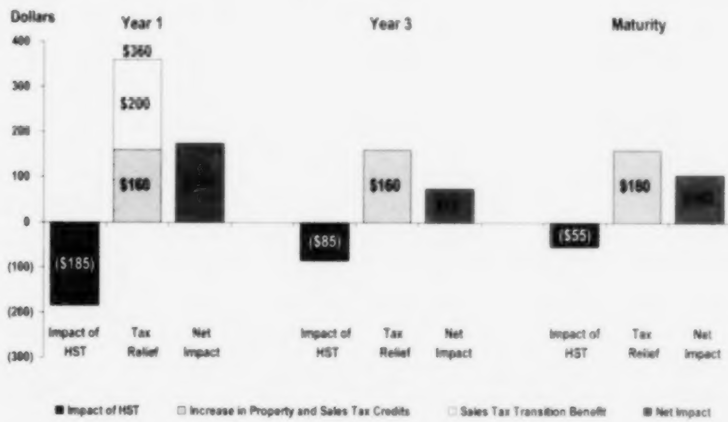
- the first full year of the HST, when families and individuals would receive two out of the three transition benefit payments designed to assist individuals and families while businesses adjust their prices;
- the third year, when the transition benefit would no longer be provided; and
- at maturity in 2018, when the HST credits for businesses would be fully phased in.

Single Parent on Ontario Works, 2 Children (ages 5 & 7) — Chart 13



Note: Single parent with $11,532 in annual Ontario Works benefits, paying $620 in monthly rent, with no day-care costs.
Source: Ontario Ministry of Finance, November 12, 2009.

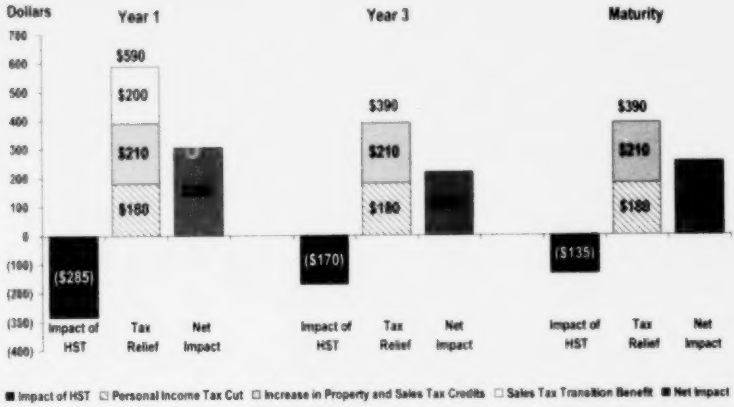
Single Senior, Pension Income $20,000 — Chart 14



Note: Senior individual with pension income including Old Age Security, Guaranteed Income Supplement and Canada Pension Plan, and paying $600 in monthly rent.
Source: Ontario Ministry of Finance, November 12, 2009.

Single Individual, $30,000

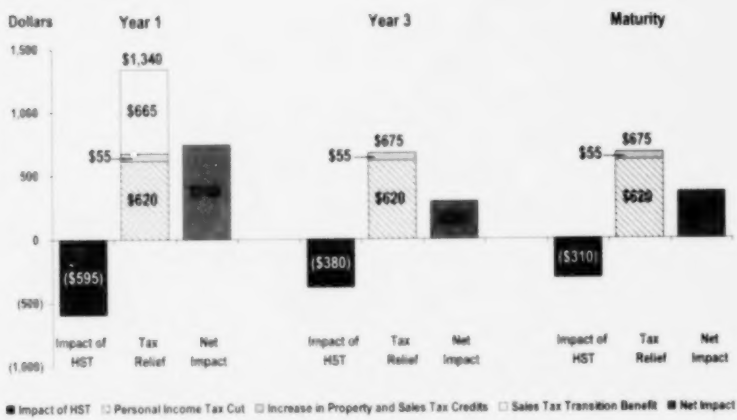
Chart 15



Note: Individual with $600 in monthly rent.
Source: Ontario Ministry of Finance, November 12, 2009.

Couple, $70,000, 2 Children (ages 5 & 10)

Chart 16



Note: Family with income split 60%/40%, paying $4,000 in property taxes on their home, with day-care costs of $11,000 a year.
Source: Ontario Ministry of Finance, November 12, 2009.

Single Parent on Ontario Works, 2 Children (ages 5 & 7)

Chart 13

Single Senior, Pension Income $20,000

Chart 14

Single Individual, $30,000

Chart 15

Couple, $70,000, 2 Children (ages 5 & 10)

Chart 16

IMPLEMENTING THE HARMONIZED SALES TAX FOR JOBS AND GROWTH

As proposed in the 2009 Budget, the RST would be replaced with a VAT and combined with the GST to create the HST effective July 1, 2010.

The McGuinty government continues to work with businesses, stakeholder organizations and other interested parties to ensure a smooth transition to the HST.

The government has published several information notices to help address taxpayer questions. To help consumers and businesses prepare for the proposed tax changes, the government released transitional rules for housing on June 18, 2009 and general transitional rules on October 14, 2009. Additional details on point-of-sale rebates were released on November 12, 2009. These information updates are available at www.ontario.ca/taxchange.

Additional information is included in this paper to further help consumers and businesses prepare for the HST.

COMPREHENSIVE INTEGRATED TAX COORDINATION AGREEMENT

On November 9, 2009, Canada and Ontario entered into a Comprehensive Integrated Tax Coordination Agreement (CITCA), facilitating a modern sales tax system with a single administration that would save businesses more than $500 million per year in compliance costs alone. This historic agreement is based on the Memorandum of Agreement signed by Canada and Ontario in March 2009 and provides the policy framework for the HST.

The CITCA confirms $4.3 billion in federal transitional assistance, enables areas of provincial tax policy flexibility and provides for the best possible arrangements for Ontario Public Service employees affected by the changes. Additional information on the CITCA is included in the

Technical Appendix and a copy of the Agreement is available at www.ontario.ca/taxchange.

WINDING DOWN THE RETAIL SALES TAX

As part of the move to the HST, Ontario would wind down broad-based tax provisions of the current *Retail Sales Tax Act*, with the exception of certain provincially levied taxes, such as the sales tax on specified insurance premiums and private transfers of used vehicles.

The existing RST and related exemptions, special rates, credits and rebates under the *Retail Sales Tax Act* would generally end for transactions on or after July 1, 2010.

SUPPORTING PUBLIC SERVICE BODIES

As announced in the 2009 Budget, under the HST, Ontario's Public Service Bodies (PSBs) would be able to claim proportional rebates of the provincial portion of the HST they pay for inputs used to provide exempt supplies.

Public Service Body Rebate Rates (Per Cent) **Table 5**

	Rebate for Ontario's portion of proposed HST
Charities and Qualifying Non-Profit Organizations	82
Municipalities	78
Universities and Colleges	78
School Boards	93
Hospitals	87

The proposed PSB rebates are intended to keep each PSB sector fiscally neutral relative to the RST it currently pays. As a result, the aggregate tax burden for each sector would remain unchanged after the transition to the HST.

Public service bodies providing taxable supplies would be eligible for input tax credits. The Technical Appendix provides further information regarding PSB rebates as well as the Special Quick Method of Accounting for PSBs.

TEMPORARILY RESTRICTED INPUT TAX CREDITS

The 2009 Budget proposed temporary restrictions on input tax credits (ITCs) that would apply to certain inputs used by large businesses (generally those with annual taxable sales in excess of $10 million) and certain financial institutions. These restrictions would be temporary and would apply only to the provincial portion of the HST. After the first five years of implementation, full ITCs would be phased in over a three-year period. Similar to the restricted ITC system in Quebec, the restrictions would apply only to certain inputs: energy, except where used to produce goods for sale; certain telecommunication services; certain road vehicles and fuel used to power those vehicles; and food, beverages and entertainment.

To support Ontario farmers, these temporary restrictions would not apply to farming businesses.

To support PSBs, these temporary restrictions would not apply to PSBs (i.e., school authorities, hospital authorities, public colleges, universities, municipalities, charities and non-profit organizations).

The Technical Appendix provides further information regarding the application of restricted ITCs as well as the exemption from these temporary restrictions for farms and PSBs.

MEASURES TO SUPPORT CONSUMERS AND BUSINESSES

Point-of-Sale Rebates

The 2009 Budget proposed to provide targeted relief for consumers from the eight per cent provincial component of the HST on many items important to Ontario families through point-of-sale rebates for books, children's clothing and footwear, children's car seats and car booster seats, diapers and feminine hygiene products.

In addition, point-of-sale rebates of the eight per cent provincial component of the HST are proposed for print newspapers and qualifying prepared food and beverages sold for a total of $4.00 or less.

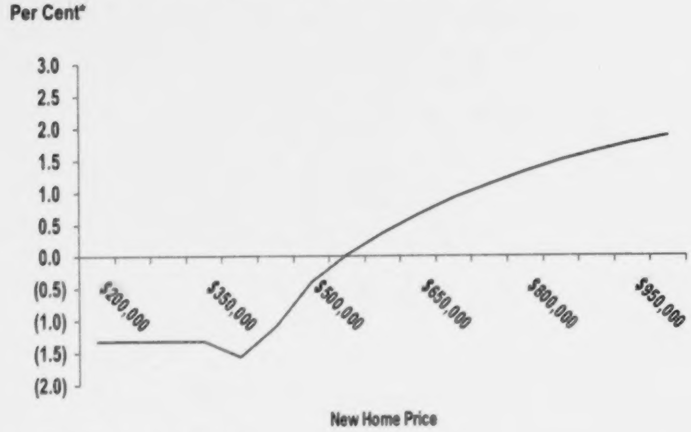
See the Technical Appendix for further details.

Helping Homebuyers and the Housing Industry

The McGuinty government has proposed several measures that would help Ontarians buying new homes, support a strong housing industry and encourage economic growth and job creation in this important sector.

As announced on June 18, 2009, new homes purchased as primary residences across all price ranges would qualify for a rebate of up to $24,000. This rebate would ensure that, on average, new homes priced up to $400,000 would not be subject to additional tax compared to the RST currently embedded in the prices of new homes.

Net Tax Reduction for Low- to Mid-Priced Homes **Chart 17**



Note: *Difference in cost of a new home.
Source: Ontario Ministry of Finance, based on "The Impact of Sales Tax Harmonization in Ontario and B.C. on Canadian Inflation," *TD Economics Special Report*, September 18, 2009.

According to a recent TD Bank report, harmonization "may result in the drop of the purchase price of a new home valued under $500,000."[12] The TD Bank's analysis of the impact of harmonization on the price of a new home in Ontario is illustrated in Chart 17. It shows a net tax reduction for lower-priced homes as a result of Ontario's new housing rebate overcompensating for the RST currently embedded in the prices of these homes.

Small Business Transition Support

As announced in the 2009 Budget, Ontario would provide up to $400 million in one-time transitional assistance for small businesses to assist with point-of-sale and accounting systems changes required to collect the HST.

[12] "The Impact of Sales Tax Harmonization in Ontario and B.C. on Canadian Inflation," *TD Economics Special Report*, September 18, 2009.

Small business transitional assistance of up to $1,000 would be available for GST/HST registrants, other than financial institutions, in business in Ontario on July 1, 2010, who make taxable supplies and have less than $2 million in annual revenue from taxable sales.

Reducing Compliance Costs

To simplify administration, the HST would generally use the same rules and tax base as the GST. This would significantly reduce the administrative burden on businesses that currently comply with two separate and sometimes conflicting sets of tax rules. The HST would be administered by the Canada Revenue Agency (CRA). Ontario businesses would benefit from one set of forms, one payment system and one point of contact for audits, appeals and taxpayer services. This would save Ontario businesses, both large and small, more than $500 million a year in compliance costs and would help to promote job creation and growth.

Under the RST system, Ontario compensates vendors for collecting and remitting the tax. Vendor compensation would end as part of the transition to the HST. Vendor compensation would continue to apply for RST returns filed up to and including those filed for the period ending March 31, 2010 under the existing RST system.

Promoting Newer, More Fuel-Efficient Vehicles

Ontario currently applies a Tax for Fuel Conservation (TFFC) and provides a Tax Credit for Fuel Conservation (TCFFC) for new passenger and sport utility vehicles based on highway fuel-consumption ratings. Both the TFFC and TCFFC are legislated under the *Retail Sales Tax Act*. As part of the transition to the HST and wind-down of the RST, the TFFC and TCFFC would no longer apply to new vehicle purchases on or after July 1, 2010. This would save businesses and consumers approximately $35 million per year.

The McGuinty government's goal is that, by 2020, one in every 20 passenger vehicles on the province's roads will be an electric vehicle. This would not only help the environment, but it could also strengthen

Ontario's economy by driving innovation, revitalizing the global auto sector and creating jobs. To support this ambitious plan, various incentives were recently announced, including a purchase rebate for consumers to help reduce the higher cost of electric vehicles. The rebate will be available for plug-in hybrid and battery electric vehicles purchased after July 1, 2010. The introduction of the new electric vehicle rebate coincides with the sunset date for the existing RST rebate for alternative fuel vehicles, which would no longer be available for purchases as of July 1, 2010.

Eliminating the Multi-Jurisdictional Vehicle Tax

Ontario currently applies an annual pro-rated sales tax on multi-jurisdictional vehicles — the multi-jurisdictional vehicle tax (MJVT) — under the *Retail Sales Tax Act*. The MJVT applies to new registrations and registration renewals for trucks and buses that are registered to travel into and out of Ontario under the International Registration Plan (IRP). The RST does not apply to the purchase of these vehicles and any related repairs that are subject to the MJVT.

As part of the transition to the HST and wind-down of the RST, the MJVT would no longer apply to renewals or new registrations of these multi-jurisdictional vehicles under the IRP on or after July 1, 2010. In addition, the vehicles would no longer be subject to RST (exit tax) when they cease to be registered under the IRP on or after July 1, 2010.

Eliminating the MJVT would be consistent with the treatment in other Canadian provinces that have adopted a VAT and would help maintain a level playing field between multi-jurisdictional and domestic vehicles.

Simplifying Sales to Government

Like every business in Ontario, the Ontario government and its Crown agencies must be ready to comply with the HST, effective July 1, 2010.

Currently, the government pays RST on its purchases, but claims a GST exemption. Claiming this exemption requires businesses to separate government purchases from other purchases, increasing business compliance costs.

As part of moving to the HST, the government is simplifying how it does business by reducing the administrative burden on businesses. Under the HST, the Ontario government would pay the HST upfront on all its purchases and claim a rebate from the CRA for eligible HST amounts. Businesses would no longer have to separate government purchases, decreasing their compliance costs.

This is called the pay-and-rebate model. It is used by all of the provinces that have a harmonized sales tax.

ENHANCING THE INTEGRITY OF THE TAX SYSTEM

The 2009 Budget proposed to make adjustments to current alcohol fees, levies and charges and retain a sales tax on private transfers of used vehicles.

REPLACING ALCOHOL FEES

The proposed Ontario Tax Plan for More Jobs and Growth Act, 2009 would replace certain alcohol charges with taxes to enhance their operational structure and legislative clarity; these measures would take effect on July 1, 2010.

The proposed rates shown in Table 6 would be set to achieve the following policy objectives:

- first, to maintain the revenue that would be lost in lowering the 12 per cent and 10 per cent RST rates on alcohol to the Ontario HST rate of eight per cent and to maintain the revenue currently derived from the fees and charges on alcohol products;
- second, to mirror the current system as closely as possible and to minimize any shifts in revenue from one segment of the market to another;
- third, to generate no net new revenue for the Province and to minimize any changes to consumer prices; and
- fourth, to create a structure that would continue to promote social responsibility.

Proposed Alcohol Rates	Table 6
Commodity	**Rate**
Non-Draft Beer Basic Tax	69.75¢/litre
Draft Beer Basic Tax	54.75¢/litre
Non-Draft Beer Basic Tax (Manufactured by a Microbrewer[1])	19.76¢/litre
Draft Beer Basic Tax (Manufactured by a Microbrewer[1])	18.26¢/litre
Beer Volume Tax	17.6¢/litre
Beer and Wine Environmental Tax	8.93¢ per non-refillable container
Basic Tax on Beer Made at a Brew Pub	20.90¢/litre
Ontario Wine and Wine Cooler Basic Tax	6.1%
Wine Volume Tax	29¢/litre
Wine Cooler Volume Tax	28¢/litre

[1] A microbrewer would be defined as a manufacturer of beer whose annual worldwide production of beer is 50,000 hectolitres or less.

The proposed changes would ensure a level playing field across all distribution channels as follows:

- first, the new rates would apply to retail channels outside the Liquor Control Board of Ontario (LCBO); and
- second, the mark-ups that apply to purchases in the LCBO would be adjusted to achieve the same effect as the new rates.

In addition, the new wine rates would apply to the purchase of wine from winery retail stores to offset the proposed reduction in the sales tax rate.

"Two key strategies for controlling alcohol-related health and social problems involve pricing alcohol at levels that discourage heavy (high-risk) consumption, and maintain the real value of prices relative to inflation over time. As such, *"Towards a Culture of Moderation"* calls for all provinces in Canada to adopt minimum retail social-reference prices (so-called minimum prices) for alcohol, and index these prices, at least annually, to the Consumer Price Index (CPI)."

MADD Canada, Letter to the Editor, The Globe and Mail, *December 23, 2008*

Complementary changes to maintain social responsibility will also be introduced. Specifically, the spirits, wine and beer floor prices will be indexed annually based on a three-year average of the Ontario Consumer Price Index (CPI). The proposed legislation also includes provisions that would index the beer basic rate.

Proposed Alcohol/Revenue Changes **Table 7**
($ Millions)

	2010–11	2011–12
Reduced RST on Alcohol	(220)	(310)
Existing Alcohol Fee Revenue[1]	(345)	(460)
Alcohol Legislative Changes	565	770
Refundable Corporate Tax Credit for Growing Microbrewers	–	–
Net Change in Alcohol Revenue	**0**	**0**

Note:
1 Reported as part of liquor licence revenue.

Support for Ontario's Wine and Grape Strategy

As announced on October 13, 2009, the McGuinty government is proposing a plan to build on the success of the Ontario grape and wine industry. Central to this strategy is the continued growth of Vintners Quality Alliance (VQA) wines made from 100 per cent Ontario grapes. To support VQA, the Province would implement a comprehensive plan that would include a VQA support program, marketing initiatives and transition programs. These programs would be financed by levying an additional 10 percentage points on cellared in Canada (CIC) wines sold in winery retail stores. It is expected that this higher rate would generate approximately $12 million a year in additional revenue that would go to support Ontario's strategy for VQA wines and grapes in Ontario.

Further details on the funding for these initiatives will be announced by the Minister of Consumer Services.

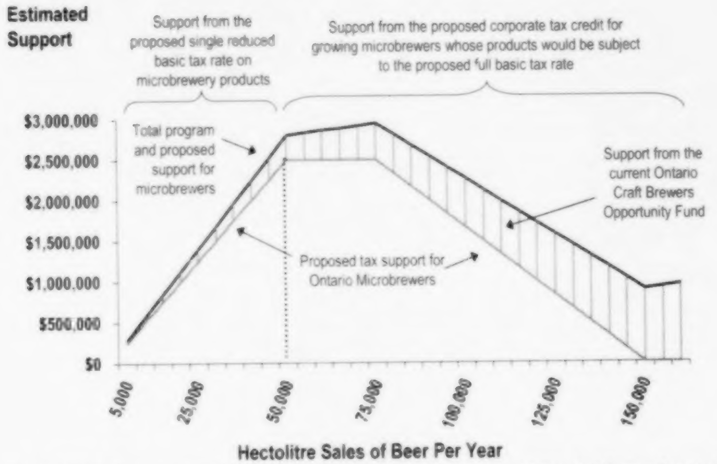
Support for Microbrewers

Currently, Ontario provides a graduated beer fee structure for microbrewers. These lower rates help support the development and growth of microbrewers in the province. As a result of the proposed changes, the existing graduated rate structure would be replaced.

A single reduced basic tax rate would apply to purchases of microbrewery products made by beer manufacturers whose annual worldwide production of beer is 50,000 hectolitres or less. This lower rate would help ensure that existing Ontario microbrewers continue to benefit from the same level of support as they do now.

To support Ontario microbrewers as they grow and create jobs, the government is proposing to introduce legislation next spring that would provide a refundable corporate tax credit for growing microbrewers, effective July 1, 2010.

Supporting Microbrewers in Ontario **Chart 18**



Note: Represents the maximum estimated benefit at each level of sales from the current Ontario Craft Brewers Opportunity Fund, the proposed single reduced basic tax rate on microbrewery products and the proposed corporate tax credit for growing microbrewers.
Source: Ontario Ministry of Finance.

For purposes of the tax credit, a qualifying microbrewer would be a corporation that is a manufacturer of beer with a permanent establishment in Ontario and whose total annual worldwide production of beer exceeds 50,000 hectolitres but does not exceed 150,000 hectolitres.

A maximum tax credit of up to $2,499,500 on eligible non-draft beer sales or a maximum tax credit of up to $1,824,500 on eligible draft beer sales would be available to qualifying microbrewers on sales over 50,000 hectolitres and up to, and including, 75,000 hectolitres. The tax credit would be proportionately reduced when sales exceed 75,000 hectolitres and fully eliminated when sales exceed 150,000 hectolitres. This proposed tax support would replace current program support for growing microbrewers.

On September 26, 2008, the McGuinty government announced a new four-year Ontario Craft Brewers Opportunity Fund (OCBOF).

The OCBOF provides $1.8 million annually to be distributed among eligible Ontario craft beer manufacturers and $200,000 to the Ontario Craft Brewers organization to support the continued growth and development of craft beer manufacturers in Ontario. To date, approximately $4 million has been provided under this program.

LEVELLING THE PLAYING FIELD FOR PRIVATE TRANSFERS OF USED VEHICLES

The 2009 Budget announced that Ontario would retain a sales tax on private transfers of used vehicles, similar to the tax treatment in other provinces.

To help ensure a level playing field between sales by GST/HST registrants (e.g., car dealerships) and private sales, the tax rate on private transfers of used vehicles would be 13 per cent. Applying the 13 per cent rate to private transfers of used vehicles would raise about $70 million per year in additional revenue.

Effective July 1, 2010, gifts of used vehicles between siblings would no longer be subject to Ontario sales tax.

The 13 per cent tax on private transfers of used vehicles would be administered by Ontario and would generally apply to the same vehicle classes that are currently subject to RST, including boats and aircraft. Exemptions under the current RST on used vehicles would be maintained, and the exemption for gifts by family members would be expanded to include siblings, similar to the treatment in other provinces.

SUPPORTING KEY SECTORS FOR JOBS AND GROWTH

The 2009 Budget proposed a comprehensive package of tax changes to promote Ontario's economic growth and to better position Ontario's economy for long-term competitiveness in a global marketplace. In addition to the tax cuts for business proposed in the comprehensive tax package, the proposed Ontario Tax Plan for More Jobs and Growth Act, 2009 would provide targeted tax measures to support education and training, new investments and well-paying jobs in key sectors of the economy.

INVESTING IN SKILLS AND KNOWLEDGE

The economic benefits of a highly educated and skilled workforce are clear. The McGuinty government's Skills to Jobs Action Plan includes tax measures that will help create jobs and prepare the province's workforce for the new economy. The 2009 Budget provided an additional $50 million annually to support businesses that hire and train co-op students and apprentices through enhancements to the Co-operative Education Tax Credit and proposed enhancements to the Apprenticeship Training Tax Credit (ATTC). The proposed ATTC enhancements would make it the most generous tax credit of its kind in Canada.

ENHANCED ONTARIO TAX CREDITS TO SUPPORT EDUCATION AND SKILLS TRAINING

Apprenticeship Training Tax Credit

- With proposed enhancements, a 35 per cent refundable tax credit would be available to employers (45 per cent credit for small employers) on the salaries and wages paid to eligible apprentices in qualifying trades.

Co-operative Education Tax Credit

- A 25 per cent refundable tax credit is available to employers (30 per cent credit for small employers) on the salaries and wages paid to eligible postsecondary co-op students.

ENTERTAINMENT AND CREATIVE CLUSTER INITIATIVES

The McGuinty government continues to partner with key sectors to position Ontario businesses to succeed in an increasingly competitive global economy.

Ontario's entertainment and creative cluster is a cornerstone of Ontario's new innovative economy. It is the third largest in North America by employment, after California and New York. The economic health of this cluster enhances creativity and innovation in the province. It also boosts economic growth by attracting businesses, skilled workers and highly mobile professionals and investors to Ontario.

ONTARIO MEDIA TAX CREDIT ENHANCEMENTS PROPOSED IN 2009

- Book Publishing Tax Credit
- Computer Animation and Special Effects Tax Credit
- Film and Television Tax Credit
- Film Production Services Tax Credit
- Interactive Digital Media Tax Credit

To support job creation and new investment in Ontario, the McGuinty government proposed enhancements in 2009 to a number of the Province's media tax credits. Ontario's enhanced media tax credits would provide about $280 million in tax support in 2009 to strengthen the entertainment and creative cluster.

"It [expanding the Film Production Services Tax Credit] will ensure Ontario continues to attract productions that generate billions of dollars in economic activity, protecting our infrastructure and creating jobs throughout the industry."

Brian Topp, Co-Chair, FilmOntario, June 29, 2009

SUSTAINABLE FUNDING FOR TOURISM

Tourism plays an important role in Ontario's economy. According to the February 2009 report prepared by the Ontario Tourism Competitiveness Study, chaired by Greg Sorbara, "[t]he contribution from a stronger, more dynamic sector could make tourism a fundamental building block of the next Ontario economy."[13] For that reason, as part of its tax package, Ontario committed to allocating approximately $40 million to destination marketing in Ontario tourism regions, once these are established, to help support tourism development and job creation.

Building on that commitment, Ontario is proposing to create a legislative mechanism to allow for the establishment of a special dedicated levy on transient accommodation, such as hotel rooms, to promote destination marketing and management programs. The Regional Tourism Levy would implement a key recommendation of the Ontario Tourism Competitiveness Study to standardize and replace destination marketing fees across the province with this new dedicated funding mechanism.

[13] "Discovering Ontario: A Report on the Future of Tourism," Ontario Tourism Competitiveness Study, February 2009, p. 6.

Legislative amendments would allow the government to regulate the rate of the Regional Tourism Levy for each tourism region prescribed under the *Ministry of Tourism and Recreation Act*. The proposed amendments also provide that the rate could not exceed three per cent.

The revenue collected from the levy would be remitted to the Province and, as suggested by the Study, would become a source of funding for qualifying regional Destination Marketing and Management Organizations.

For 2010–11 and 2011–12, during the transition to tourism regions, a further $25 million per year will be provided to support job creation and the tourism industry.

To ensure a smooth transition to the new system, the Province has been working closely with stakeholders to establish tourism regions and intends to work with the industry on details related to the implementation of the levy. The authority for the levy would come into force upon proclamation.

TECHNICAL APPENDIX

This appendix provides further technical details to help consumers and businesses transition to the HST.

COMPREHENSIVE INTEGRATED TAX COORDINATION AGREEMENT

The Comprehensive Integrated Tax Coordination Agreement (CITCA), entered into on November 9, 2009, sets out parameters including federal transitional assistance, provincial tax-policy flexibility and provincial revenue-allocation requirements. The Agreement also includes federal commitments to negotiate the best possible arrangements for employment of Ontario Public Service staff at the Canada Revenue Agency (CRA) and the Canada Border Services Agency in Ontario, and to maximize activities and operations in Ontario.

The CITCA would be supplemented by:

- a human resources agreement that contains the details of the federal government's commitment to provide federal jobs for affected Ontario employees as well as the commitment to maximize tax administration activities carried on in Ontario; and
- agreements pertaining to service and compliance levels and exchange of information.

For further details, refer to the CITCA agreement available at www.ontario.ca/taxchange.

KEY FEATURES OF THE CANADA-ONTARIO COMPREHENSIVE INTEGRATED TAX COORDINATION AGREEMENT

Canada and Ontario have concluded a Comprehensive Integrated Tax Coordination Agreement (CITCA) that, subject to legislative approvals, would:

- provide the policy framework for the application of the HST in Ontario on July 1, 2010, administered by the Canada Revenue Agency and the Canada Border Services Agency at no cost to the Province;
- enable Ontario to:
  - provide point-of-sale rebates for the Ontario component of the HST for up to five per cent of the estimated GST base in Ontario. Specifically, point-of-sale rebates would include books, children's clothing and footwear, children's car and booster seats, diapers, feminine hygiene products, newspapers and qualifying prepared food and beverages sold for a total of $4.00 or less;
  - phase in full input tax credits for certain businesses, for a transitional period of up to eight years;
  - establish provincial rebate rates and thresholds for new housing, public service bodies, including charities and qualifying non-profit organizations; and
  - provide for the best possible arrangements for employment in the federal government of Ontario Public Service employees affected by the change and the maximization of activities carried on in the Province.

Canada would provide Ontario with a total of $4.3 billion in transitional payments — $3 billion upon implementation of the HST in Ontario on July 1, 2010 and $1.3 billion on July 1, 2011, to promote economic growth and support the transition to the new value-added tax.

The CITCA would also require the Province to remain a party to the Agreement for a period of at least five years from the implementation date. Ontario would also be required to maintain its existing eight per cent rate for at least two years.

HST POINT-OF-SALE REBATES

As announced in the 2009 Budget, Ontario proposes to provide targeted relief from the eight per cent Ontario component of the HST on many items important to Ontario families by providing point-of-sale rebates of the Ontario component of the HST for books, children's clothing, children's footwear, children's car seats and children's car booster seats, diapers and feminine hygiene products.

In addition to the point-of-sale rebates proposed in the 2009 Budget, Ontario proposes to provide further targeted sales tax relief. Additional point-of-sale rebates of the Ontario component of the HST are proposed for print newspapers and qualifying prepared foods and beverages sold for a total of $4.00 or less.

Generally, purchasers would not be required to take any steps in order to take advantage of these point-of-sale rebates. Where a person purchases a designated item at a retail establishment, the retailer would automatically provide the purchaser with the point-of-sale rebate, crediting the Ontario component of the HST and only collecting the five per cent federal component of the HST on that item. Crediting purchasers in this manner would not affect a retailer's ability to claim ITCs on its business inputs. Also, there would be no requirement for the retailer to indicate the point-of-sale rebate on its invoices or to indicate the point-of-sale rebate amounts credited to the purchaser in its GST/HST return. In the event that a purchaser does pay the Ontario component of the HST on the purchase of a designated item (i.e., the retailer did not credit the Ontario component of the HST to the purchaser), the purchaser would be entitled to apply to the CRA, within four years of the day that the tax became payable, for a rebate of the Ontario component of the HST paid.

The point-of-sale rebate of the Ontario component of the HST would not only be available to purchasers at retail establishments located in Ontario, but would also be available on Internet purchases of designated items. Further, the point-of-sale rebates would be available on supplies of

designated items made at any point in the distribution chain, including supplies made by producers, wholesalers and distributors. In other words, the point-of-sale rebate of the Ontario component of the HST would be available on any supply of a designated item where the Ontario component of the HST applies.

In addition, persons importing a designated item into Ontario, or bringing a designated item into Ontario from another province, would not be required to pay the Ontario component of the HST. The current GST treatment would continue to apply for the five per cent federal component of the HST in respect of an importation.

The CRA would administer these point-of-sale rebates on behalf of the Province of Ontario.

The following information provides additional details for consumers and retailers:

- Books, including a printed book or an update of a printed book, an audio book (i.e., a spoken reading of a printed book), a bound or unbound printed version of scripture of any religion, a printed book and a read-only medium (such as a CD-ROM) whose content is related and integrated with the content of the book and when sold together as a single package, and a printed book and a read-only medium and/or a right to access a website when sold together as a single package and if specifically designed for students enrolled in a qualifying course, such as educational courses of elementary or secondary schools. The point-of-sale rebate for books is expected to provide a benefit to consumers of approximately $125 million per year.

The following items, including anything having the following items as its main component, would not qualify as a printed book for the purpose of the point-of-sale rebate of the Ontario component of the HST:

- a magazine or periodical, unless it is purchased by subscription and the printed space of the magazine or periodical devoted to advertising is not more than five per cent of the total printed space;
- a brochure or pamphlet;
- a sales catalogue, a price list or advertising material;
- a warranty booklet or an owner's manual;
- a book designed primarily for writing on;
- a colouring book or a book designed primarily for drawing on or affixing thereto, or inserting therein, items such as clippings, pictures, coins, stamps or stickers;
- a cut-out book or a press-out book;
- a program relating to an event or performance;
- an agenda, calendar, syllabus or timetable;
- a directory, an assemblage of charts or an assemblage of street or road maps, but not including a guidebook or an atlas that consists in whole or in part of maps other than street or road maps;
- a rate book;
- a newspaper (qualifying newspapers would be eligible for their own point-of-sale rebate);

  - an assemblage of blueprints, patterns or stencils; or
  - an assemblage or a collection of, or any item similar to, the above items.

- Children's clothing designed for babies, girls and boys up to and including girls' Canada Standard Size 16 and boys' Canada Standard Size 20, or clothing designated for girls and boys in sizes small, medium or large if the clothing does not have a designated Canada Standard Size. Children's clothing eligible for the rebate would not include costumes or clothing such as sports protective equipment. The point-of-sale rebate for children's clothing is expected to provide a benefit to consumers of approximately $150 million per year.

- Children's footwear designed for babies, girls and boys up to and including girls' size 6 and boys' size 6, including footwear without a numerical size that is designated for boys or girls in sizes small, medium or large. Children's footwear eligible for the rebate would not include skates, rollerblades, ski-boots, footwear that has cleats, or similar footwear. The point-of-sale rebate for children's footwear is expected to provide a benefit to consumers of approximately $35 million per year.

- Children's car seats and children's car booster seats that are restraint systems or booster cushions that conform with Transport Canada's safety requirements for Standards 213, 213.1, 213.2 and 213.5 as described under the federal *Motor Vehicle Safety Act*. The point-of-sale rebate for children's car seats and booster seats is expected to provide a benefit to consumers of approximately $5 million per year.

- Diapers, including cloth and disposable diapers designed for babies and children, and diaper inserts and liners, rubber pants and training pants. Incontinence products would be zero-rated under HST, in accordance with the current GST rules. The point-of-sale rebate for diapers is expected to provide a benefit to consumers of approximately $20 million per year.

- Feminine hygiene products, including sanitary napkins, tampons, sanitary belts or other products marketed exclusively for purposes similar to the purposes for which sanitary napkins, tampons and sanitary belts are marketed. This point-of-sale rebate is expected to provide a benefit to consumers of approximately $15 million per year.

Additional point-of-sale rebates from the eight per cent provincial component of the HST are proposed for the following:

- Print newspapers that contain news, editorials, feature stories or other information of interest to the general public, and that are published at regular intervals, typically on a daily, weekly or monthly basis, but not flyers, inserts, magazines, periodicals and shoppers. The point-of-sale rebate for newspapers is expected to provide a benefit to consumers of approximately $65 million per year.

- Qualifying prepared food and beverages that are ready for immediate consumption if the total price for all qualifying items purchased, excluding HST, is not more than $4.00. Qualifying items include:

    - food or beverages heated for consumption;

    - salads;

    - sandwiches and similar products;

    - platters of cheese, cold cuts, fruit or vegetables and other arrangements of prepared food;

    - cakes, muffins, pies, pastries, tarts, cookies, doughnuts, brownies, croissants with sweetened filling or coating, or similar products where they are not prepackaged for sale to consumers and are sold as single servings in quantities of less than six;

- ice cream, ice milk, sherbet, frozen yoghurt or frozen pudding, non-dairy substitutes for any of the foregoing, or any product that contains any of the foregoing, when hand-scooped or machine dispensed and sold in single servings;

- other food items that are excluded from zero-rated GST/HST treatment as basic groceries solely by virtue of the types of sales made at the establishment where they are sold, such as the sale of a bagel or a plain croissant in a restaurant;

- non-carbonated beverages, when dispensed at the place they are sold; or

- when sold with a qualifying food item listed above: other beverages except if the cans, bottles or other primary containers in which they are sold contain a quantity exceeding a single serving; cakes, muffins, pies, pastries, tarts, cookies, doughnuts, brownies, croissants with sweetened filling or coating, or similar products where they are prepackaged for sale to consumers in quantities of less than six items each of which is a single serving; ice cream, ice milk, sherbet, frozen yoghurt or frozen pudding, non-dairy substitutes for any of the foregoing, or any product that contains any of the foregoing, when packaged and sold in single servings; or other snack foods[14], such as chips, salted nuts, popcorn, candies, fruit bars, granola bars, etc.

- Wine, spirits, beer, malt liquor or other alcoholic beverages would not qualify for the purpose of the point-of-sale rebate of the Ontario component of the HST.

[14] Other snack foods would be items excluded from basic groceries under paragraphs (e) to (j) and (l) in Part III of Schedule VI to the federal *Excise Tax Act*.

This point-of-sale rebate is expected to provide a benefit to consumers of approximately $260 million per year.

The Province is working with the federal government to refine the above estimates based on the most currently available data.

RESTRICTED INPUT TAX CREDITS

The 2009 Budget announced proposed temporary restrictions on ITCs that would apply to certain items used by large businesses, including certain financial institutions, in the course of their commercial activities (i.e., the making of taxable supplies, including zero-rated supplies). The restrictions would be temporary during the initial implementation of the HST and would only apply to the provincial portion of the tax. The restrictions would be similar to those currently in place in Quebec for large businesses.

Phase-in of Input Tax Credits on Restricted Items

After the first five years of HST implementation, ITCs relating to restricted items would be phased in over a three-year period. Accordingly:

- in the sixth year, a business that had been subject to the restrictions would be able to claim a 25 per cent ITC on the restricted items;
- in the seventh year, the business would be able to claim a 50 per cent ITC;
- in the eighth year, the business would be able to claim a 75 per cent ITC; and
- in the ninth year, the business would be able to claim full ITCs (only with respect to inputs used in its commercial activities).

The restrictions would generally apply to restricted items acquired or brought into Ontario for consumption or use in Ontario, but not to restricted items acquired or brought in for resale or resupply.

Restricted items acquired outside Ontario for consumption or use inside Ontario would generally be subject to the restrictions. Conversely, restricted items acquired in Ontario for consumption or use outside Ontario would generally not be subject to the restrictions.

Definition of Large Business

The following rules would apply in determining who is a "large business" subject to the ITC restrictions:

- A person who is a registrant for GST/HST purposes, regardless of whether or not the person has a permanent establishment in Ontario, would be considered to be a "large business" if:
  - the total consideration for taxable supplies (including zero-rated supplies) made in Canada by the person, or by associates of the person, that was paid or payable in the previous fiscal year exceeded $10 million, or
  - the person is one of the following financial institutions, or a person related to one of the following financial institutions: banks, trust companies, credit unions, insurers, segregated funds of insurers, and investment plans. Specific rules would apply to financial institutions that are selected listed financial institutions for purposes of the *Excise Tax Act* (ETA).

To support Ontario farmers, the restrictions would not apply to items acquired for use in farming activities by a person whose chief source of income is "farming," as that term is defined in the *Income Tax Act* (Canada) (ITA).

- In calculating the $10 million threshold, amounts attributable to consideration for the following supplies would not be included in the amount of consideration: supplies of financial services, exempt supplies (e.g., residential rents), supplies of real property that is capital property and supplies of the goodwill of a business in situations where GST is not payable on those supplies.
- In calculating the $10 million threshold, amounts attributable to consideration for the following supplies would be included in the amount of consideration: supplies of zero-rated exports, supplies made outside Canada through a permanent establishment in Canada, and supplies deemed to have been made for nil consideration pursuant to a joint election made by specified members of a qualifying group.
- The $10 million threshold would be adjusted for fiscal years that are shorter than 365 days. There would also be special rules dealing with acquisitions of control, amalgamations and other forms of business reorganizations.

PUBLIC SERVICE BODIES

To further support public service bodies (PSBs), these temporary restrictions would not apply to persons that are PSBs for purposes of the ETA (i.e., school authorities, hospital authorities, public colleges, universities, municipalities, charities and non-profit organizations).

Where the ITC restrictions apply to a partnership (because the partnership is a large business), a member of the partnership (other than an individual) that acquires or brings into Ontario restricted items for consumption or use in the activities of the partnership would be considered to be a large business for the purposes of that acquisition or bringing in.

Where a participant in a joint venture is a large business that has made a joint-venture election with the operator of the joint venture, and the operator acquires or brings into Ontario a restricted item on behalf of the participant, the operator would be considered to be a large business for the purposes of that acquisition or bringing in.

Description of Restricted Items

The restrictions would generally apply to the following property and services:

- Electricity, gas, combustibles (other than motive fuels acquired to power a propulsion engine) or steam (energy). However, energy used as an integral part of a process of producing tangible personal property for sale, or for the design or production of equipment used in the production of tangible personal property, would generally not be subject to the restrictions. Energy used for air conditioning, lighting, heating or ventilation of the production site would generally be subject to the restrictions.

- Telecommunication services, such as telephone services, voice mail, conference calls and long distance calls. Many of these services are already subject to Ontario's RST. However, Internet access and toll-free numbers would not be subject to the restrictions. Web hosting, which is not considered a telecommunication service for purposes of the ETA, would also not be subject to the ITC restrictions.

- Road vehicles weighing less than 3,000 kilograms that are required to be registered for use on public highways. Such vehicles include most cars, minivans and pick-up trucks, but not trailers and semi-trailers. For example, a large business would be subject to ITC restrictions with respect to the acquisition of a fleet of cars to be used by its employees.

- Fuel (other than diesel fuel) to power a vehicle weighing less than 3,000 kilograms that is required to be registered for use on public highways would also be subject to ITC restrictions. Similarly, parts and services for such a vehicle would also generally be subject to the ITC restrictions for the first 12 months following the date of acquisition of the particular vehicle (other than parts and services acquired in the course of routine maintenance of a road vehicle).

- Food, beverages and entertainment that are only 50 per cent deductible for purposes of the ITA. Such expenses would otherwise only give rise to a 50 per cent ITC under current GST rules. The food, beverages and entertainment targeted by this measure include items that are generally considered employee or client perks. This restriction would not apply to food or beverages that form a part of the inventory of a business, such as food purchased by a restaurant for the purpose of being resold.

Additional details regarding restricted ITCs will be released in an upcoming information notice.

PUBLIC SERVICE BODY REBATES

As announced in the 2009 Budget, under the HST, Ontario's PSBs (i.e., municipalities, hospital authorities, universities, public colleges, school authorities, charities and qualifying non-profit organizations) would be able to claim rebates for a percentage of the provincial portion of the HST they pay for their inputs used in their exempt activities. Ontario's PSB rebates were calculated to ensure that, as a whole, each sector would remain fiscally neutral relative to the amount of RST it currently pays.

Table 5 sets out the proposed PSB rebate rates.

A PSB that is a GST registrant could recover the HST paid or payable on purchases made and expenses incurred to make taxable supplies by claiming ITCs. The PSB rebate would be available to partially recover the HST paid or payable by a PSB on eligible purchases that were not recoverable through an ITC. A PSB does not have to be a registrant to be eligible for the rebate. As previously stated, PSBs would not be subject to temporarily restricted ITCs.

Similar to under the GST, Ontario's PSBs would generally be eligible to take advantage of the following simplified rules to further ease their compliance requirements.

SPECIAL QUICK METHOD OF ACCOUNTING FOR PSBs (OTHER THAN CHARITIES)

Under the GST, registrants must generally track the tax they pay on inputs for taxable and exempt supplies separately. However, to reduce the compliance requirements, the Special Quick Method (SQM) of accounting is available to most PSBs other than charities, and would be available under the proposed HST.

Public service bodies that qualify and elect to use the SQM do not separately track the tax paid on most inputs for taxable or exempt supplies. Instead, the specified PSB remittance rate would apply to these inputs. The SQM acts as a proxy for the value of ITCs and allows the PSB to retain a portion of HST collected on taxable sales in lieu of claiming ITCs.

When a PSB uses the SQM, the PSB would still collect the 13 per cent HST on its taxable supplies of goods or services. However, to calculate the amount of the HST to remit, the PSB would multiply the amount of HST-included supplies for the reporting period by the remittance rate(s) that apply (see Table 8).

The SQM remittance rates are less than the 13 per cent rate of tax that a PSB collects. This means that the PSB would remit only a part of the tax it collects. The part of the tax that the PSB keeps accounts for the approximate value of the ITCs it normally would have claimed since it cannot claim ITCs on most of its purchases when using this method. The following sets out the proposed Ontario SQM rates:

Special Quick Method Remittance Rates (Per Cent) **Table 8**

	Supply Made in a Non-HST Province	Supply Made in an HST Province (with an 8% provincial HST rate)
PSB location	**Ontario (proposed)**	**Ontario (proposed)**
Specified Facility Operator, Qualifying NPO, Designated Charity[1]	3.0	9.9
Municipalities	4.3	11.1
Universities and Public Colleges[2]	3.3	10.2
Universities and Public Colleges[3]	3.9	10.7
School Authorities	4.2	11.0
Hospital Authority, External Supplier, or Facility Operator	4.2	11.0

1 "Designated charity" refers to a charity that provides employment assistance to individuals with disabilities, supplies services that are performed by such individuals to clients, and has been approved by the Minister of National Revenue to make its supplies of these services taxable when provided to a GST/HST registrant.

2 These rates must be used if vending-machine sales (and certain other retail sales) are at least 25 per cent of an amount determined by a formula set out in the regulations.

3 These rates must be used if vending-machine sales (and certain other retail sales) are less than 25 per cent of an amount determined by a formula set out in the regulations.

Special Net Tax Calculation for Charities

The GST framework provides a separate Special Net Tax Calculation for charities. This method would also be used by charities under the proposed HST. Charities are generally required to use this method, but they may elect not to use it if they make supplies outside Canada or zero-rated supplies in the ordinary course of their business, or if 90 per cent or more of their supplies are taxable.

Under the charity-specific net tax calculation, charities are not required to track the GST paid on inputs to most taxable supplies. The general rule is that charities remit 60 per cent of the tax collected on their taxable supplies and keep the remaining 40 per cent in lieu of claiming ITCs (there are certain exceptions, such as for real property and capital property, where ITCs may be claimed). The GST paid is eligible for the charity-specific PSB rebate (the Ontario proposed charity rate is 82 per cent).

Ontario would adopt the 60 per cent Special Net Tax Calculation rate for use by certain charities.

Public Service Body Rebate for Hospital-Like Services

Ontario would parallel the GST treatment of charities and qualifying non-profit organizations that provide eligible services traditionally performed in hospitals by allowing them to claim a rebate of the provincial part of HST on inputs to these services at the proposed 87 per cent hospital rate, using the same rules and definitions that apply for the GST.

ADDITIONAL TECHNICAL DETAILS

Additional technical details regarding the HST can be found at www.ontario.ca/taxchange. The HST would use the same tax base and structure as the federal GST, with limited exceptions. Further information regarding the application of the GST is available at www.cra-arc.gc.ca.

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